

Message Text

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DRAFTED BY E:RMPOATS

APPROVED BY E:CWROBINSON

S/S :RKUCHEL

NEA/EGY-MATTHEWS

NESA/ME-RICHARDSON

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO PRIORITY

C O N F I D E N T I A L STATE 111831

EXDIS

E.O. 11652: GDS

TAGS: EAID, EGY

SUBJECT: JOINT SUPPORT OF EGYPTIAN FOREIGN EXCHANGE
PROGRAM

1. FOLLOWING RETURN FROM CAIRO AND CONSULTATIONS WITH THE SECRETARY, UNDER SECRETARY ROBINSON DISCUSSED WITH ROBERT MCNAMARA NEED FOR IBRD ASSISTANCE IN DEVELOPING AN EFFECTIVE EGYPTIAN SYSTEM OF FOREIGN EXCHANGE MANAGEMENT. AMBASSADOR WILL RECALL IN THE FINAL DISCUSSION WITH FINANCE MINISTER ABU ISMAIL, LATTER EXPRESSED SOME RECOGNITION THAT PRESENT NON-SYSTEM IS IRRESPONSIBLE AND WASTEFUL, CREATING FRANTIC AND OFTEN EXCESSIVE IMPORT PROCUREMENT ACTIONS, SPENDING FAR BEYOND AVAILABLE RESOURCES, DESPERATE RESORT TO HIGH PRICE BANK CREDIT AND REPETITIVE APPEALS FOR ADDITIONAL FOREIGN AID. MCNAMARA SAID IBRD ALSO HAD RECOGNIZED THAT REFORM OF FOREIGN EXCHANGE ADMINISTRATION WAS ESSENTIAL PRE-REQUISITE TO SERIOUS EGYPTIAN ECONOMIC DEVELOPMENT AND TO CONTINUED FOREIGN ASSISTANCE ON SCALE REQUIRED.

2. INDICATIONS FROM BOTH IRANIAN AND SAUDI ARABIAN
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GOVERNMENTS ARE THAT SOME EVIDENCE OF MORE RESPONSIBLE
GOE POLICIES AND PROCEDURES MAY BE A PREREQUISITE TO
THEIR WILLINGNESS TO CONTRIBUTE MATCHING AMOUNTS ALONG

WITH USG TO MEET MINIMUM ADDITIONAL EGYPTIAN FINANCIAL REQUIREMENTS IN REMAINDER OF 1975. WHILE RECOGNIZING

THAT COMPREHENSIVE REFORMS PROPOSED BY IMF ARE UNACCEPTABLE TO GOE AT THIS TIME, A MORE MODEST GOE PROGRAM FOR GETTING ITS EXTERNAL FINANCE IN ORDER SHOULD BE AN EXPLICIT ELEMENT OF PRESIDENT SADAT'S REQUEST TO WHICH USG RESPONDS. TESTIMONY ON THIS POINT MAY BE CRUCIAL TO CONGRESSIONAL SUPPORT OF PROPOSED FY 1975 AID PROGRAM FOR EGYPT.

3. GOE PROGRAM ALSO SHOULD INCLUDE MEASURES TO MAKE "OPEN DOOR" POLICY ON FOREIGN INVESTMENT MEANINGFUL, PARTICULARLY WITH RESPECT TO EXCHANGE RATE ON CAPITAL TRANSFERS.

4. MCNAMARA INSTRUCTED VICE PRESIDENT BENJENK TO ASK IBRD ADVISORY TEAM CURRENTLY IN CAIRO TO ASSIST GOE IN DEVISING AN EFFECTIVE FOREIGN EXCHANGE MANAGEMENT SYSTEM. BENJENK IN SUBSEQUENT DISCUSSION WITH POATS SUGGESTED THAT USG STIMULATE GOE REQUEST TO IBRD FOR THIS ASSISTANCE AND HE WOULD ALERT DUBEY TO RESPOND PROMPTLY. IN THIS WAY, APPEARANCE OF "GANGING UP" WOULD BE AVOIDED AND IBRD TEAM'S TECHNICAL CONSULTATIVE ROLE WOULD BE MAINTAINED.

5. UNLESS AMBASSADOR PERCEIVES OBJECTION, WE SUGGEST THAT HE APPROACH APPROPRIATE MINISTER OR MINISTERS AND URGE DEVELOPMENT WITH IBRD OF GOE PROGRAM WHICH WOULD GIVE GREATER CONFIDENCE TO PROSPECTIVE DONORS, SUCH PROGRAM TO INCLUDE CREATION OF FOREIGN EXCHANGE MANAGEMENT SYSTEM DESIGNED TO BRING IMPORT EXPENDITURES UNDER BETTER CONTROL AS TO AGGREGATE OUTLAYS, PRIORITIES AND TIMING OF COMMITMENTS. IT WOULD BE HELPFUL TO HAVE GOE REACTION TO THIS SUGGESTION FOR USE IN UNDER SECRETARY ROBINSON'S DISCUSSION OF TRILATERAL AID PACKAGE WITH SAUDI ARABIAN GOVERNMENT IN RIYADH MAY 20-21.

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6. IT NOW APPEARS THAT ROBINSON WILL BE UNABLE TO STOP IN CAIRO FOLLOWING VISIT TO SAUDI ARABIA BECAUSE OF NEED TO PARTICIPATE IN PREPARATORY WORK IN WASHINGTON FOR FORTHCOMING IEA AND OECD MINISTERIAL MEETINGS AND FORD-SADAT MEETING. WILL ADVISE FURTHER ON THIS TOMORROW. INGERSOLL

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